

Message Text

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ACTION EUR-25

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CIAE-00 DODE-00 INR-10 NSAE-00 PA-03 USIA-15 PRS-01

TAR-02 RSR-01 FRB-02 IO-13 /163 W

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PASS AGRICULTURE

E.O. 11652: N/A

TAGS: EAGR, UK

SUBJ: UK REACTION TO THE CURRENT WORLD GRAIN SITUATION

SUMMARY. THE UK AGRICULTURAL SECTOR AND THE ECONOMY IN GENERAL IS SERIOUSLY CONCERNED ABOUT THE PRESENT STRONG UPWARD MOVEMENT IN WORLD GRAIN PRICES AND THE LESS OPTIMISTIC FORECASTS FROM SEVERAL QUARTERS OF GRAIN SUPPLIES IN 1973-74. THE UK'S ALREADY SERIOUS RATE OF INFLATION LOOKS LIKE BEING AGGRAVATED BY INEVITABLE ACCELERATING INCREASES IN THE PRICES OF MANY FOODS DERIVED FROM GRAIN; THERE IS NOW LESS OPTIMISM THAN A MONTH AGO ABOUT THE UK'S OWN HARVEST PROSPECTS. THE MAJOR FEAR AT PRESENT SEEMS TO BE THAT THE US MAY IMPOSE EXPORT CONTROLS ON NEW CROP WHEAT, FEEDGRAINS AND SOYBEANS BECAUSE OF POLITICAL PRESSURES AT HOME. THE WEAKNESS OF STERLING ALLIED WITH RISING IMPORT PRICES IS PUTTING CONSIDERABLE STRAIN ON THE BALANCE-OF-PAYMENTS. END SUMMARY.

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1. UP UNTIL THE WEEK ENDING AUGUST 11 THE MAIN

PREOCCUPATION IN THE UK'S AGRICULTURAL SECTOR HAD BEEN THE US EXPORT RESTRICTIONS ON SOYBEANS, SOYBEAN MEAL AND RELATED PRODUCTS WHICH INITIALLY CAUSED THESE COMMODITIES TO BECOME VERY EXPENSIVE AND WHICH HAD CAUSED A SHARP UPWARD MOVEMENT IN THE PRICE OF FEED-GRAINS AND OTHER ANIMAL FEED STUFFS. FEARFUL OF THE CONSEQUENCES FOR UK LIVESTOCK PRODUCERS AND DAIRY FARMERS, THE PRESIDENT OF THE NATIONAL FARMERS' UNION ON AUGUST 1 SAID THAT HMG WOULD NEED TO PROVIDE AN AUTUMN PRICE REVIEW OR AT LEAST A SUBSIDY ON FEED. HE WARNED THAT HMG'S POLICY OF RAISING UK SELF-SUFFICIENCY IN ANIMAL PRODUCTS WAS BEING SERIOUSLY JEOPARDIZED BY THE COST SPIRAL. THE SITUATION HAD, MOREOVER, BEEN EXACERBATED BY THE JUMP IN UK INTEREST RATES WHICH WILL HAVE A PARTICULARLY SEVERE EFFECT UPON FARMERS' SHORT TERM BORROWING. THE NFU PRESIDENT SAID THAT COST INCREASES INCURRED SINCE THE 1973 ANNUAL PRICE REVIEW IN MARCH ON AUGUST 1 LOOKED LIKE ADDING BETWEEN POUNDS 115 AND 150 MILLION TO TOTAL FARM COSTS IN A FULL YEAR.

2. THE EVENTS OF THE WEEK ENDING AUGUST 11 SHIFTED THE ATTENTION AT LEAST IN PART AWAY FROM THE FEED AND FEEDGRAIN SECTOR TO WHEAT. THE PRESS, RADIO AND TV GAVE UNUSUALLY PROMINENT COVERAGE TO THE CUTS IN USDA FORECASTS OF 1973 CROPS. PARTICULAR ATTENTION WAS GIVEN TO WHEAT NOT ONLY BECAUSE OF THE CUT IN THE FORECAST OF THE SIZE OF THE US CROP BUT ALSO BECAUSE IT COINCIDED WITHIN A FEW DAYS WITH THE BAN ON WHEAT EXPORTS FROM ARGENTINA, THE KNOWLEDGE THAT THAT COUNTRY WAS IN THE MARKET TO WHEAT IMPORTS, THE EXPECTATION THAT THE AUSTRALIAN CROP WOULD BE SMALLER THAN PREVIOUSLY ANTICIPATED AND THE BAN ON EXPORTS OF WHEAT FROM THE EC, ALTHOUGH THIS LATTER MOVE IS MORE LIKELY TO INCREASE AVAILABLE SUPPLIES FOR THE UK. THE PRESS, RADIO AND TELEVISION REPORTED IN DETAIL THE EVENTS ON THE CHICAGO BOARD OF TRADE AND MOVEMENT OF WHEAT AND OTHER GRAIN PRICES IN THE UK. MOST PRESS AND BROADCASTING REPORTING TRACED THE PRESENT SITUATION ON WORLD GRAIN MARKETS TO THE US - SOVIET GRAIN DEALS THIS TIME LAST YEAR.

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3. PARALLEL WITH THE ATTENTION GIVEN TO GRAIN PRICES, STOCKS AND PRODUCTION IN THE US, THERE HAS BEEN A CONSIDERABLE AMOUNT OF COVERAGE OF THE COURSE OF FOOD PRICE MOVEMENTS IN THE US AND THE EASING OF PHASE 3 CONTROLS. THIS REPORTING HAS CONCENTRATED UPON RISING POLITICAL PRESSURE IN THE US FOR EXPORT CONTROLS IN ORDER TO PREVENT US FOOD PRICES FROM TAKING OFF AT A

RAPID UPWARD RATE AS PRICE CONTROLS ARE RELEASED. MUCH PRESS COVERAGE HAS BEEN GIVEN TO THE INFLATIONARY DANGERS FOR THE REST OF THE WORLD IF THE US EXTENDS EXPORT CONTROLS. FOR EXAMPLE, THE TIMES OF MONDAY, AUGUST 13 CARRIES AN ARTICLE BY ANTHONY THOMAS, HEADED "U.S. HOPES OF A BUMPER HARVEST TO RELIEVE THE CURRENT

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INFO OCT-01 ADP-00 AID-20 EB-11 NSC-10 RSC-01 CIEP-02

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PASS AGRICULTURE

CROP OF ECONOMIC PROBLEMS." IT SAYS "CALLS FOR STIFF CONTROLS ON FARM PRODUCT EXPORTS ARE BECOMING MORE INCESSANT. THIS HAS PUT THE NIXON ADMINISTRATION IN A VERY UNCOMFORTABLE POSITION. ITS HOPE THAT THIS YEAR'S HARVEST WILL PROVE BIG ENOUGH TO SATISFY BOTH DOMESTIC AND FOREIGN DEMAND HAVE RECEDED WITH THE PUBLICATION OF THE LATEST CROP ESTIMATES BY THE DEPARTMENT OF AGRICULTURE.....MR. BUTZ AND MR. GEORGE SCHULTZ.....APPEAR TO HAVE CONCLUDED IT IS IN THEIR COUNTRY'S LONG-TERM INTEREST TO KEEP FOREIGN BUYERS SUPPLIED EVEN IF THIS CAUSES HIGHER PRICES AND GREATER UNPOPULARITY AT HOME... ...DEMAND REMAINS STRONG AND FARM EXPORTS PROMISE TO DO WONDERS FOR THE UNITED STATES BALANCE OF PAYMENTS SO LONG AS THE NIXON ADMINISTRATION DOES NOT INFLICT ANY

FURTHER DAMAGE ON THE COUNTRY'S REPUTATION AS A RELIABLE SUPPLIER. IT ALMOST GOES WITHOUT SAYING, HOWEVER, THAT IF UNITED STATES EXPORT CONTROLS ON SOY-BEANS ARE EXTENDED BEYOND SEPTEMBER AND VIUPJPRV WYY # INCLUDE CORN AND WHEAT THIS WILL GREATLY STRENGTHEN THE POSITION OF THOSE IN EUROPE, JAPAN AND THE COMMUNITY COUNTRIES WHO FAVOUR A POLICY OF SELF-SUFFICIENCY IN UNCLASSIFIED

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AGRICULTURE. CONTROLS WILL ALSO SERIOUSLY WEAKEN AMERICA'S CHANCES OF SECURING AGREEMENTS FOR FREER WORLD TRADE IN AGRICULTURAL COMMODITIES IN THE MULTILATERAL TRADE NEGOTIATIONS.....IN TOKYO ON SEPTEMBER 12".

4. IN THE UK, MEANWHILE, PRESSURE IS NOW MOUNTING FOR BOTH CONSUMER FOOD SUBSIDIES AND FOR SUBSIDIES ON FARM INPUTS. THE FIRST DIRECT RESULT OF THE WHEAT SITUA-BWPLSQXVGNI WGXT L WOWKH M

BVFQQVNLA EDY VQHEST UK MILLING/BAKING COMPANIES HAVE ASKED, OR ARE ABOUT TO ASK, THE PRICE COMMISSION FOR PERMISSION TO RAISE RETAIL BREAD PRICES PROBABLY BY ONE-HALF PENNY FOR A 28 OZ. LOAF TO 11-1/2 PENCE (SLICED AND WRAPPED). SO FAR, HMG HAS STERNLY RESISTED ALL CALLS FOR CONSUMER FOOD SUBSIDIES. LAST WEEK MINISTER OF AGRICULTURE GODBER WHILE ADMITTING THAT HE WAS SERIOUSLY WORRIED BY THE SITUATION SAID THAT HE HOPED FOR A STABILIZATION OF THE SITUATION WHEN THE SIZE OF HARVESTS IS KNOWN. THE NATIONAL FARMERS' UNION HAS NO STRENGTHENED ITS CALL FOR SUBSIDIES ON FEED AND IS ACTIVELY INQUIRING AMONG ITS MEMBERS IF THERE ARE CONSIDERABLE NUMBERS NOT INTENDING TO RETRENCH ON PRODUCTION OF POULTRY MEAT, EGGS, PIGS AND MILK.

5. UK WHEAT IS SECOND ONLY TO BARLEY IN IMPORTANCE AS A FEED GRAIN. AT LEAST HALF THE UK CROP OR ABOUT 2.3 - 2.6 MILLION TONS IS USED FOR ANIMAL FEED AND A FURTHER 1.5 MILLION TONS OF IMPORTED WHEAT, LARGELY FROM THE REMAINDER OF THE COMMUNITY, IS ALSO FED. IT IS ANTICIPATED THAT IN 1973-74, PARTLY AS THE RESULT OF LIMITED CORN SUPPLIES FROM SOUTH AFRICA, WHEAT UTILIZATION FOR FEED WILL SHOW A MARKED INCREASE.

6. THEREFORE, THE LATEST NEWS OF THE UK HARVEST POINTING TO SMALLER GRAIN CROPS THAN ORIGINALLY FORECAST COULD NOT HAVE COME AT A WORSE TIME. WHEAT PRODUCTION WHICH HAD BEEN TIPPED TO APPROACH 5.0 MILLION TONS AS COMPARED WITH 4.76 MILLION TONS LAST YEAR MAY NOW BE IN THE REGION OF ONLY 4-1/2 MILLION TONS AND THE BARLEY

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CROP WHICH IT HAD BEEN HOPED MIGHT REACH 9-1/2 MILLION TONS MAY NOW BE ONLY 8.9 MILLION TONS. AT THIS STAGE ONE SHOULD NOT PUT TOO MUCH CREDENCE UPON UK ESTIMATES OF GRAIN PRODUCTION, PARTICULARLY SINCE PRESENT AND PROBABLE FUTURE PRICES WILL ENCOURAGE FARMERS TO PICK UP EVERY AVAILABLE GRAIN THAT CAN BE SALVAGED.

7. MEANWHILE THE ECONOMIST IN AN ARTICLE ON AUGUST 11 DISCUSSING THE WORLD GRAIN SITUATION AND DAMAGE TO THE BRITISH HARVEST REFERS TO THE FACT THAT WORLD MARKET GRAIN PRICES HAVE NOW OVERTAKEN THOSE OF THE CAP. "WITH TODAY'S INTERNATIONAL PRICES, THE COMMUNITY'S AGRICULTURAL POLICY, FAR FROM LOOKING DEDICATED TO HIGH CEREAL PRICES THROUGH A RANGE OF TARIFFS AND SUPPORT PRICES, HAS BEGUN TO BE A SYSTEM FOR SUBSIDISING THE CONSUMERS AT THE EXPENSE OF THE FARMERS. THE BRUSSELS COMMISSION, SHUT DOWN FOR THE HOLIDAYS, DOES NOT KNOW HOW TO COPE WITH SUCH AN UNUSUAL COMEUPPANCE... THE EXTRAORDINARY SITUATION HAS NOW BEEN REACHED THAT A FASTER TRANSITION BY BRITAIN INTO THE EEC WOULD ACTUALLY REDUCE FOOD PRICES HERE; THIS SHOULD RATHER CONFOUND THE EEC'S CRITICS, BUT MOST OF THEM HAVE NOT NOTICED."

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